

SPAA Change Proposal Form

This form should be used by SPAA Parties who wish raise a draft or formal Change Proposal and for SPAA members and other interested parties to return their comments on SPAA Change Proposals which have been circulated for consultation.

Originators - please complete Section A of this form and submit to spaachanges@electralink.co.uk. The CP will be issued in the next available Change Pack or the next Expert Forum meeting.

Respondents – please complete Section B of this form and return it to spaachanges@electralink.co.uk. Your response should include your assessment of the solution and comments on the Change Proposal drafting. If you reject the solution then please supply your reason for rejection and an alternative solution. Even if you reject a solution your responses should state whether the proposed implementation date is acceptable to your organisation. If it is not acceptable, please indicate the reasons why and an alternative date.

SECTION A: To be completed by originator

Document Control	
CP Status:	Final
For Issue To:	Change Pack
CP Number*:	08/123
Title of Change:	Revision of SPAA voting and funding arrangements with associate changes of Supplier classification.
Version Number:	<u>32</u> .0
Change Pack Ref*:	11/08
Attachments:	Appendix A – Legal Drafting

* Assigned by SPAA Change Control Administrator

Originator details	
Party Name	Total Gas and Power Ltd
Party Change Administrator:	Gareth Evans
Constituency:	Domestic Supplier
Telephone number:	01473 822503, 07500 964447
Fax number:	
Email address:	Gareth@waterswe.co.uk

CP Details	
SPAA Parties believed to be impacted:	Domestic Suppliers, I&C Suppliers & Transporters
Proposal to Change: <i>Any proposal to add, delete or amend a mandatory schedule will be subject to Authority Consent</i>	SPAA Document – various clauses
Summary of Change:	Redefinition of Supplier categories to Mass market and Single Market. Change of the SPAA voting process from a total weighted vote to a single vote for each Party.
Related CPs: <i>Please indicate if this CP is related to or impacts any other CP already in the SPAA or other industry Change Process</i>	None

Proposed Solution:

Introduction

The purpose of the suite of change proposals raised by TGP is to create an open and equitable governance framework for the Supply Point Administration Agreement (SPAA).

SPAA was originally conceived to manage the metering protocols that were developed at the start of metering competition. The intention of Ofgem was that this organisation would have a large degree of self-governance and so a voting system, based on meter points, was put in place to accommodate this.

This voting system has been seen to be unfairly slanted towards those Suppliers with large mass market portfolios, against those Suppliers who are niche domestic players or have business interests purely in the medium and large I&C sector.

Current Regime

Constituency Change

Suppliers are classified as either Small Domestic, Large Domestic or I&C. The split between small and large Domestic Suppliers recognizes a need for smaller, niche suppliers to have a separate classification. At present there is no attempt to differentiate between those suppliers who concentrate on the SME sector of the I&C sector and the medium to large I&C customers.

Voting Arrangements

At present, all changes to the SPAA arrangements and baselines are subject to a vote by all SPAA Parties. Voting uses the number of supply points in a supplier's portfolio to give a

weighted vote. Any change requires support of 65% of the relevant constituency.

The market shares that were published in Ofgem Energy Supply Probe findings in October 2008 indicates the current voting shares:

Supplier	Domestic (%)	I&C* (%)
British Gas	44	47.7
SSE	15	6.9
Eon	13	20.7
RWE NPower	12	8.3
Scottish Power	9	7.2
EDF	7	3.3
Big Six Total	100	94.1
Others	0	5.9

**The I&C market shares are based on SME meter point information. The low number of non-SME meter points compared to SME meter points means that the SME market shares can be used with good degree of accuracy to indicate probable voting shares.*

Even when taking into account the 20% CAP for any one Party's Weighted vote, the Big Six have such a large degree of influence in both the Supplier markets they can block any non-mandatory development which is not to their advantage. Similarly, though mandatory changes will ultimately be decided upon by the Authority, any vote constitutes a recommendation to the Authority and any decision contrary to that recommendation is appealable to the competition commission. It would therefore be impossible for niche market Suppliers to implement any change that the dominant market players do not agree with.

Funding

At present funding costs are allocated according to the proportion of meter points in a Supplier's portfolio. Unlike the voting arrangements, there is no upper limit to the contribution from a single Party. Conversely there is no lower limit and so Suppliers with small numbers of meter points contribute very little. It can be argued that the current voting regime is mirroring to some extent the funding allocation mechanism, with the greatest contributors having the greatest say in future development.

Proposed Changes

~~Constituency~~ Change ~~Proposal~~ classification

The current ~~constituency~~ classification of change proposals does not reflect the reality of the market framework, with large players operating over mass markets and niche operators concentrating on certain market sectors. We therefore propose that all changes Suppliers should be classified as mass market (Domestic and I&C), ~~or~~ niche market (domestic or I&C) ~~or whole market~~.

Suppliers would then ~~be reclassified according to~~ vote according to their position within the market ~~sectors~~. Suppliers would be classified as mass market, ~~according to data provided by xserve~~, if it supplies over 1,000,000 meter points. Niche market if less than 1,000,000 meter points. ~~This would be undertaken in a similar manner to the classification of transporters~~. This classification can be reviewed at any time at the Supplier's request.

~~All proposed changes to SPAA would be classified as affecting either the mass market suppliers or the niche market suppliers and voting undertaken accordingly.~~

The Classification of Small Domestic, Large Domestic and I&C would remain for determining the composition of the SPAA Exec.:-

Voting Arrangements – Change Proposals

It is a key requirement of any competitive market, that new entrants and specialist Suppliers may influence the development of the SPAA. As shown above, the current framework does not allow this. It is vital that all Suppliers feel that they have adequate control over the future development of SPAA. We therefore propose that the voting regime is modified to take into account these needs.

The current weighted voting regime is removed and replaced with ~~each Group of Parties a one company, one vote regime receiving one vote.~~ If a change affects one Part of the market, Niche or Mass Market, then any Group of Parties which had at least one affected Party, would be eligible to vote. – Group of Parties would have one vote each on any change that affected the whole market, irrespective of their sector classification. The concept of a Group of Parties, as opposed to Party, is used to prevent companies with multiple licences having multiple votes. ~~This voting mechanism would be used for both change proposals and determining the composition of the SPAA Exec.~~

In moving to a “one company, one vote” arrangement, the current threshold of 65% seems unnecessarily high. In order to align with other voting mechanisms used in other Gas and Power agreements, it is proposed to move to a simple majority vote to determine a positive result.

Voting Arrangements – Voting for SPAA Exec

~~The current weighted voting regime is replaced with an equal voting process, where each Group of Parties is given one vote. The concept of a Group of Parties, as opposed to Party, is used to prevent companies with multiple licences having multiple votes within the same constituency.~~

~~In moving to a “one company, one vote” arrangement, the current threshold of 65% seems unnecessarily high. In order to align with other voting mechanisms used in other Gas and Power agreements, it is proposed to move to a simple majority vote.~~

~~The movement to a “one company, one vote” does create a possible issue with the election of the SPAA I&C or Large Domestic representatives, in which ties may occur. We suggest that in the event of such a tie, then the two candidates with the greatest number of licenses voting for them would be elected. For Small Domestic Representatives, then the candidate with the greatest number of licenses voting for them would be elected.~~

Funding

If the voting arrangement is adjusted to provide niche market players including I&C Suppliers and new entrant domestic suppliers with more say in the development of SPAA, it seems appropriate that the funding arrangements are likewise adjusted. The current arrangements have no concept of a de minimus contribution towards the costs, so those Suppliers with few meter points will contribute very little to the costs of SPAA.

In tandem with the change to the voting arrangements we propose that each Party with less than 54000 meter points does not contribute towards the costs of SPAA, to encourage accession by smaller Suppliers. Those Parties who have less than 1,000,000 meter points and a minimum of 1000 meter points make a fixed payment of £500 a month, for the duration of their membership. Those Suppliers with greater than 1,000,000 meter points

will contribute via the current proportional funding arrangement for any remaining costs.

We would expect the number of I&C Parties to increase if these changes are implemented, further reducing the proportional funding need.

Proposed Implementation Technique:

We have provided some initial thoughts on changes to the legal text. We would stress that these proposed changes are indicative only and that the proposed high level solution should take precedence in the event of any conflict.

Please see attached document.

Proposed Implementation Date:

There do not appear to be any significant technical hurdles to implementing this modification and so the modification can be implemented as soon as direction from the Authority is received.

Business Justification for change:

Undertaking these changes will create an equitable governance and funding framework, allowing I&C Suppliers to consider acceding to the SPAA purely on the basis of its commercial benefits

How will the CP facilitate the SPAA relevant objectives:

Refer to Standard Condition 34A of Gas Suppliers Licence

(a) the development, maintenance and operation of an efficient, coordinated and economical change of supplier process;

We foresee no impact on the change of supplier process.

(b) the furtherance of effective competition between Gas Suppliers and between relevant agents;

We do not believe that this modification will facilitate this relevant objective.

(c) the promotion of efficiency in the implementation and administration of the supply point administration arrangements; and

The accession of I&C Suppliers will allow their inclusion in any discussions in developing appropriate solutions for the Metering Market, in particular the administration and development of Metering protocols to facilitate AMR roll-out. These changes therefore facilitate this relevant objective.

(d) so far as is consistent with sub-paragraphs (a), (b) and (c), the efficient discharge of the licensee's obligations under this licence.

We do not believe that this modification will facilitate this relevant objective.

Authority Consent Required:

Yes

SECTION B: To be completed by respondent

Respondent details

Name:

Company:

Telephone number:

Email address:

Response

Issue Definition: Support / Reject / No Interest

Proposed Solution: Support / Reject / Alternative Solution

Implementation Date: Support / Reject / Alternative Solution

Implementation Technique: Support / Reject / Alternative Solution

Alternative Solutions and / or Comments